

Washington State Auditor's Office

Audit Report

Central Puget Sound Regional Transit Authority (Sound Transit) King County

Audit Period

January 1, 1999 through December 31, 1999

Report No. 62133

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Washington _____
State Auditor

Brian Sonntag

Audit Summary

Sound Transit King County January 1, 1999 through December 31, 1999

ABOUT THE AUDIT

This report contains the results of our independent audit of Sound Transit for the period January 1, 1999, through December 31, 1999.

The Transit recently estimated that its light rail project would cost approximately \$1.1 billion more than the estimate provided to voters in 1996. Citizens have contacted our Office requesting information on that cost increase and seeking assurance that the Transit is operating effectively.

In January 2001, the Federal Transportation Department Inspector General announced his agency would review the reasonableness of the project, what caused the cost increase, and whether any emerging issues might affect the project's completion.

Consistent with our authority, we audited a number of areas to determine whether the Transit operated in compliance with state, local and federal laws and regulations. We also audited the financial statements and evaluated the internal controls established by Transit management. Our work focused on specific areas that have potential for abuse or misuse of public resources.

RESULTS

The Transit complied with state laws and regulations, federal regulations, and its own policies and procedures in the areas we examined. We noted certain matters concerning miscellaneous cash receipting not significant enough to report as findings that we communicated to management.

Table of Contents

**Sound Transit
King County
January 1, 1999 through December 31, 1999**

Description of the Transit	1
Audit Areas Examined	3
Audit Overview	6

Description of the Transit

Sound Transit King County January 1, 1999 through December 31, 1999

ABOUT THE AUTHORITY

In 1992, the Washington State Legislature authorized King, Pierce and Snohomish counties to create a single agency to plan, build and operate a high-capacity transit system within the region's most heavily used travel corridors. During 1993, the Central Puget Sound Regional Transit Authority, acting under the service name Sound Transit, was established.

In 1996, the Transit and the voters adopted a ballot measure that created the 10-year regional transit system plan. This plan includes two new rail systems (electric light-rail and commuter rail), regional express bus routes and a high-occupancy-vehicle expressway.

The Transit's Board and management promised an aggressive timeline for completion of the project. In 1999, the Transit began its transition from a planning to an operational agency by the establishment of regional bus routes linking Pierce and King counties. In addition, locomotives and passenger rail cars were purchased for the heavy rail system, and sites were secured for rail station locations and the Transit's administrative offices.

The Transit is supported primarily through sales taxes, state motor vehicle taxes, rental car taxes, passenger fares, bond proceeds, and grant funding from federal and state agencies. Total operating expenses have increased from approximately \$3.6 million in 1997 to \$16.6 million in 1999. The number of employees has increased to approximately 190.

The Transit is governed by an 18-member Board of Directors, who are appointed by the respective member county executives and confirmed by the council of each member county. Membership is based on the population from that portion of each county, which lies within the Transit's service area.

APPOINTED OFFICIALS

These officials served during the audit period:

Board of Directors:

Chair	Dave Earling, City of Edmonds Council Member (effective 1/00)
Vice Chair	Dave Enslow, Pierce County Council Member (effective 1/01)
Vice Chair	Greg Nickels, King County Council Member
	Bob Drewel, Snohomish County Executive
	Ann Davis, City of Lakewood Council Member
	Mary Gates, City of Federal Way Council Member
	Jane Hague, King County Council Member
	Ed Hansen, City of Everett Mayor
	Richard McIver, City of Seattle Council Member
	Rob McKenna, King County Council Member
	Sid Morisson, WSDOT Secretary
	Paul Schell, City of Seattle Mayor

Board of Directors (continued):

Ron Sims, King County Executive
Cynthia Sullivan, King County Council Member
Jim White, City of Kent Mayor
Jack Crawford, City of Kenmore Council Member
(effective 1/00)
Kevin Phelps, City of Tacoma Council Member
(effective 1/00)
Dave Russell, City of Kirkland Council Member
(through 12/99)
Doug Sutherland, Pierce County Executive
(through 12/99)
Paul Miller, City of Tacoma Council Member
(through 12/99)

Note: Doug Sutherland served as Vice Chair January 2000 through December 2001.

Executive Director	Bob White (resigned 1/01)
Deputy Executive Director	Paul Matsuoka
Finance and Administration Director	Hugh Simpson

Note: Joni Earl was appointed Acting Executive Director in January 2001.

ADDRESS

Transit

401 South Jackson Street
Seattle, WA 98104
(206) 398-5000

Audit Areas Examined

Sound Transit King County January 1, 1999 through December 31, 1999

In keeping with general auditing practices, we do not examine every portion of Sound Transit's financial activities during each audit. The areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. Other areas are audited on a rotating basis over the course of several years. The following areas of the Transit were examined during this audit period:

INTERNAL CONTROLS AND LEGAL COMPLIANCE

We audited the following areas for internal controls and compliance with certain applicable state and local laws and regulations:

Areas Examined:	Public Concern:	Audit Procedures:
Open Public Meetings Act	<ul style="list-style-type: none">• Ensure a quorum was present at all public meetings where action was taken• Ensure the purpose of all executive sessions was publicly stated and allowable• Ensure the Board openly approved all significant events (appropriations, expenditures, etc.)	<ul style="list-style-type: none">• Observed the Transit Board meeting minutes contain evidence of compliance
Contract compliance	<ul style="list-style-type: none">• Ensure the Transit monitors for vendor compliance with contractual agreements• Ensure the Transit does not overpay for contracted goods and services• Ensure the Transit receives all contracted goods and services	<ul style="list-style-type: none">• Interviewed Transit officials and observed evidence of monitoring of architectural, engineering and construction contracts• Reviewed the appropriateness of vendor charges/compared to contract terms
Public works	<ul style="list-style-type: none">• Ensure the public received the lowest possible price• Ensure public works occur with minimal financial risk to the citizens• Ensure compliance with various statutory requirements	Observed evidence of compliance with statutes, such as: <ul style="list-style-type: none">• Retainage• Prevailing wage• Insurance and Bonding• Competitive bid

Travel expenditures, and use of credit cards	<ul style="list-style-type: none"> • Ensure expenditures for valid and legal purpose • Ensure the Transit's credit is not misused for personal benefit 	<ul style="list-style-type: none"> • Through inquiry, determined the Transit had policy in place to ensure expenditures were legal and valid, and credit cards were not misused for personal purchases • Observed documentation to verify the appropriateness of specific transactions
Conflict of interest	<ul style="list-style-type: none"> • Ensure appointed officials have not entered into transactions for illegal self-benefit 	<ul style="list-style-type: none"> • Observed documentation to verify the appropriateness of specific transactions
Investments	<ul style="list-style-type: none"> • Ensure investments are legal • Ensure investments of public funds are not subject to unnecessary or illegal risk of loss 	<ul style="list-style-type: none"> • Observed investments and compared to State Treasurer's published list of authorized investments for public entities
Budget	<ul style="list-style-type: none"> • Ensure expenditures were limited to budgeted appropriations • Ensure the Transit approved its budget in an open public meeting • Ensure budget was approved prior to expenditures 	<ul style="list-style-type: none"> • Observed evidence of approval in Board meeting minutes, compared budgeted appropriations to actual expenditures
Receipts	<ul style="list-style-type: none"> • Ensure the Transit has controls in place to ensure all money received is accurately deposited and recorded 	<ul style="list-style-type: none"> • Through observation and inquiry, evaluated system of revenue processing • Compared billing and receipting records and verified all amounts billed were deposited and posted to financial system
Disbursements	<ul style="list-style-type: none"> • Ensure the Transit has controls in place to ensure all amounts paid represent valid claims against the authority 	<ul style="list-style-type: none"> • Through observation and inquiry, evaluated system of expenditure processing • Observed documentation to verify the appropriateness of specific transactions
Payroll	<ul style="list-style-type: none"> • Ensure the Transit has controls in place to ensure all amounts paid represent valid claims against the authority • Ensure the Transit has controls in place to ensure employees are not over-compensated or paid for work not rendered 	<ul style="list-style-type: none"> • Through observation and inquiry, evaluated system of expenditure processing • Observed documentation to verify the appropriateness of specific transactions

Sub-Area Equity	<ul style="list-style-type: none"> • Ensure the Transit has processes in place to ensure amounts received from each of the five “sub-areas” are expended on projects in that sub area 	<ul style="list-style-type: none"> • Through observation and inquiry, evaluated the Transit’s system of accounting for revenues and expenditures by sub-area • Reviewed work conducted by other auditors concerning the appropriateness of specific sub-area charges
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FINANCIAL AREAS

Our opinion on the Transit’s financial statements is provided in a separate report, which includes the financial statements. In addition to the financial related work listed in other categories, we reviewed the work performed by the other independent auditors, hired by the Transit to render an opinion on the Transit’s financial statements. Those auditors gave the Transit an unqualified opinion. Based on our review of their work and the financial related work we performed, we agree with that opinion.

FEDERAL PROGRAMS

We reviewed the work performed by the Transit’s other independent auditors, hired by the Transit to perform a federal single audit. The other auditors evaluated internal controls and tested compliance with federal requirements, as applicable, for the Transit’s major federal programs, which are listed in the Federal Summary section of the financial and single audit report we issued September 22, 2000.

Audit Overview

Sound Transit King County January 1, 1999 through December 31, 1999

AUDIT HISTORY

We have audited Sound Transit annually since 1995. Management has been very responsive to prior audit recommendations. Audit concerns are often discussed, addressed and resolved before completion of our audit. The Transit has had only one finding, relating to compliance with state bid laws (1995).

FUTURE AUDITS

As contractor selections continue, we will determine whether these selections were based on competitive bids as required by state, federal, and local laws and regulations.

As construction continues, we will:

- Determine whether the work charged by contractors is consistent with the actual bid and contract documents.
- Review change orders to determine whether such work falls within the original construction contract, or whether such work constitutes new public works subject to separate bidding.
- Review change orders for proper authorization as established by Transit policy.

Finally, we will determine whether construction contracts and other expenditures are consistent with the Transit's statutory purpose, as approved by the voters.

CONCLUSIONS

In the areas examined, we found the Transit complied with state laws and regulations, its own policies and procedures, and requirements of federal financial assistance. We also found the Transit's financial statements were complete and accurate.

We thank Transit officials and personnel for their assistance and cooperation during the audit.